SaskTel

Financial Statements of

DIRECTWEST PUBLISHING PARTNERSHIP

December 31, 2000

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
Royal Bank Building
2010 - 11th Avenue
Suite 900
Regina Saskatchewan
Canada S4P 0J3
Telephone +1 (306) 790 7900
Facsimile +1 (306) 790 7990

January 12, 2001

Auditors' Report

To the Members of the Legislative Assembly,
Province of Saskatchewan

We have audited the statement of financial position of **DirectWest Publishing Partnership** as at December 31, 2000 and the statements of operations, partners' equity and cash flows for the year then ended. These financial statements are the responsibility of the partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the partnership as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The prior year's financial statements were audited by another firm of Chartered Accountants who provided their audit report dated May 26, 2000.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and other members of the worldwide PricewaterhouseCoopers organization.

DirectWest Publishing Partnership

STATEMENT OF FINANCIAL POSITION

As at December 31

	2000	1999
	(Thousands of dollars)	
ASSETS		
Current		
Notes receivable from Holdco *[note 6]*	$ 872	$ —
Accounts receivable	2,840	3,690
Inventory	89	129
Prepaid publishing costs	5,510	5,628
Prepaid expenses	263	36
Total current assets	9,574	9,483
Capital assets *[note 3]*	3,478	3,765
Goodwill *[note 4]*	511	414
	$ 13,563	$ 13,662
LIABILITIES AND PARTNERS' EQUITY		
Current		
Bank indebtedness	$ 311	$ 112
Notes payable to Holdco *[note 6]*	—	427
Accounts payable	1,341	2,192
Partners' withdrawals payable	358	636
Deferred revenue	2,423	2,354
Current portion of long-term debt	198	—
Total current liabilities	4,631	5,721
Long-term debt *[note 7]*	823	—
	5,454	5,721
Partners' equity	8,109	7,941
	$ 13,563	$ 13,662

See accompanying notes

On behalf of the Partners:

3364381 Canada Ltd.

3339807 Canada Ltd.

DirectWest Publishing Partnership

STATEMENT OF OPERATIONS

For the year ended December 31

	2000	1999
	(Thousands of dollars)	
Gross revenue	$ 30,734	$ 30,739
Cost of revenue	6,915	6,688
Gross profit	23,819	24,051
Operating expenses	22,147	22,515
Income from operations	1,672	1,536
Net interest income	7	61
Net income	$ 1,679	$ 1,597

See accompanying notes

DirectWest Publishing Partnership

STATEMENT OF PARTNERS' EQUITY

For the year ended December 31

	2000	1999
	(Thousands of dollars)	
Balance, beginning of year	$ 7,941	$ 9,120
Net income	1,679	1,597
	9,620	10,717
Partners' withdrawals	(1,511)	(2,776)
Balance, end of year	$ 8,109	$ 7,941

See accompanying notes

DirectWest Publishing Partnership

STATEMENT OF CASH FLOWS

For the year ended December 31

	2000	1999
	(Thousands of dollars)	
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income before interest paid	**$ 1,710**	$ 1,597
Interest paid	**(31)**	—
Net income	**1,679**	1,597
Charges not involving cash		
Depreciation and amortization *[notes 3 and 4]*	**1,175**	1,251
	2,854	2,848
Net change in non-cash working capital balances	**(1,217)**	(617)
	1,637	2,231
INVESTING ACTIVITIES		
Capital expenditures	**(646)**	(2,712)
Business acquisition *[note 5]*	**(422)**	—
	(1,068)	(2,712)
FINANCING ACTIVITIES		
Proceeds from long-term debt *[note 7]*	**1,100**	—
Repayments of long-term debt *[note 7]*	**(79)**	—
Partners' withdrawals	**(1,789)**	(2,141)
	(768)	(2,141)
Decrease in cash during the year	**(199)**	(2,622)
Cash and cash equivalents, beginning of year	**(112)**	2,510
Cash and cash equivalents, end of year	**$ (311)**	$ (112)
Comprised of:		
Bank indebtedness	**$ (311)**	$ (112)
	$ (311)	$ (112)

See accompanying notes

DirectWest Publishing Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2000

1. ORGANIZATION

DirectWest Publishing Partnership (the Partnership) markets and supplies print and Internet advertising and marketing solutions for Saskatchewan and agricultural businesses. The Partnership's main product lines include the Saskatchewan Telecommunications (SaskTel) telephone directories, Warren's Farm & Ranch directory as well as an Internet portal at mysask.com.

As the Partnership is unincorporated, no provision has been made in the accounts for partners' income taxes. These statements are of the Partnership only and do not include any other assets, liabilities, revenues and expenses of the partners.

Substantially all of the Partnership's revenues are generated pursuant to a Publishing Agreement with Saskatchewan Telecommunications Holding Corporation (Holdco). Within this agreement the Partnership has the exclusive right until December 31, 2001 to publish, print and distribute SaskTel's printed telephone directories and the right to identify, develop and implement, and sell enhanced directory products.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The most significant policies are outlined below.

Revenue recognition

Revenue from the sale of Print and Internet advertising is recognized over the term of the contract.

Prepaid publishing costs

The Partnership defers expenses that are directly related to its publications, including printing and distribution costs, direct production salaries and salaries of sales staff. These costs are charged to income over the life of the related publication. Indirect costs are expensed as incurred.

Capital assets

Capital assets are initially recorded at cost. Normal repair and maintenance expenditures are expensed as incurred.

Depreciation is provided by the straight-line method over the following periods:

Amdocs software	7 years
Software	1 - 2 years
Office furniture and equipment	10 years
Leasehold improvements	Lease term (7 years)
Computer equipment	2 - 3 years

One-half year's depreciation is claimed in the year of acquisition. Gain or loss on the disposal of individual assets is recognized in income in the year of disposal.

NOTES TO FINANCIAL STATEMENTS

December 31, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill is amortized on a straight-line basis over a maximum of twenty years. The carrying value of goodwill is reviewed annually by analyzing the financial performance of the related investment or by assessing its fair market value.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

3. CAPITAL ASSETS

	2000	1999
	(Thousands of dollars)	
Computer hardware and software	$ 8,422	$ 7,868
Office furniture, equipment and leaseholds	1,701	1,609
	10,123	9,477
Accumulated depreciation	(6,645)	(5,712)
Net book value	$ 3,478	$ 3,765

Depreciation expense relative to capital assets is included in the statement of operations as follows:

	2000	1999
	(Thousands of dollars)	
Cost of revenue	$ 180	$ 304
Operating expenses	753	759
	$ 933	$ 1,063

NOTES TO FINANCIAL STATEMENTS

December 31, 2000

4. GOODWILL

	2000	1999
	(Thousands of dollars)	
Cost	$ 1,273	$ 915
Accumulated amortization	(762)	(501)
Net book value	$ 511	$ 414

Amortization expense $261,000 for 2000 ($207,000 for 1999) is included in the statement of operations as operating expense.

5. BUSINESS ACQUISITION

On March 28, 2000, DirectWest acquired the directory net assets of Warren's Farm & Ranch Directory Ltd. The business acquired publishes an agricultural directory and magazine, which is distributed throughout Western Canada and the northern United States. All assets and liabilities acquired were accounted for under the purchase method of accounting with a substantial portion being attributed to goodwill. The results of operations have been included since the date of acquisition.

6. NOTES RECEIVABLE FROM HOLDCO

Certain intercompany transactions with Holdco are settled through intercompany notes rather than exchanging cash. Interest is applied to the balance of the note based on short-term investment rates or short-term borrowing rates available to Holdco through CIBC. The amount receivable from Holdco of $872,000 represents the net amount of notes issued at December 31, 2000 ($427,000 payable for 1999).

7. LONG-TERM DEBT

On July 19, 2000, an unsecured term loan totaling $1,100,000 was issued to DirectWest Publishing Partnership by Holdco. This loan is repayable in monthly installments of $21,495 including principal and interest at the rate of 6.44% per annum maturing July 19, 2005. Principal repayments over the next five years are as follows:

	(Thousands of dollars)
2001	$ 198
2002	211
2003	225
2004	240
2005	147
	$ 1,021

NOTES TO FINANCIAL STATEMENTS

December 31, 2000

8. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end, are as follows:

	2000	1999
	(Thousands of dollars)	
Sales	$ 2,922	$ 2,767
Purchases of goods and services	$ 12,440	$ 11,791
Accounts receivable	$ 2,761	$ 3,559
Accounts payable	$ 106	$ 106

In addition, the Partnership pays Saskatchewan Education and Health Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

9. COMMITMENTS

The Partnership is committed under operating leases for premises for the following payments:

	(Thousands of dollars)
2001	$ 120
2002	114
2003	114
2004	114
2005	114
Thereafter	230
	$ 806

In addition, the Partnership has contracted to purchase approximately $1.3 million of newsprint during 2001.

NOTES TO FINANCIAL STATEMENTS

December 31, 2000

10. COMPARATIVES

1999 figures have been reclassified to conform to the current year's presentation.